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DE RUEHUM #0320/01 1160806
ZNR UUUUU ZZH
O 260806Z APR 06
FM AMEMBASSY ULAANBAATAR
TO RUEHKO/AMEMBASSY TOKYO IMMEDIATE 2065
INFO RUEHC/SECSTATE WASHDC PRIORITY 9807
RUEHUL/AMEMBASSY SEOUL 2198

UNCLAS ULAANBAATAR 000320

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TOKYO please pass to Senior Advisor Keith from Charge

E.O. 12958: N/A

TAGS: PREL PGOV PHUM ECON MG

SUBJECT: Briefer for EAP Senior Advisor Keith

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Distribution

¶1. We look forward to your visit, which will provide a good opportunity to both review the relationship and push selected issues.

Background on Post

¶2. (U) Briefings during the Friday country team will provide you with background supplementing this scenesetter. The one area which time does not permit you an event is our important aid program. For a second year in a row, the program (all ESF) has been funded at \$7.5 million; this is down from the steady \$10 million rate that had provided continuity. Mongolia and other MCC-eligible countries have been "taxed" 25% of their previous allocations -- even though a compact has yet to be signed and there will be no program overlap between USAID and MCC. Moreover, without continued sustained efforts to push forward economic policy reforms and combat growing corruption - two hallmarks of the USAID program - it will be difficult to ensure the conditions that are necessary to successfully implement an MCC compact. USAID currently provides economic policy advice which supports macroeconomic policy reforms, competitiveness, and growth; promotes microenterprise development in rural and peri-urban areas; supports judicial reform; bolsters parliament and the political participation of women; fights trafficking in persons; and aids the fight against corruption.

¶3. (U) The mission itself is in generally high spirits after getting good reviews for last year's extraordinary string of visits: Peace Corps Director in July; Speaker Hastert in August; Secretary Rumsfeld in October; and the President and First Lady and Secretary Rice in November. By removing one major problem and effective bar to assignment of families, the new housing compound into which American personnel moved in 2003 continues to pay benefits in morale and recruitment. While the embassy building itself has benefited from the "wellness" program, managing the growth of personnel and agencies continues to require a shell game as we add onto and reconfigure the existing space (we will soon have added six new American positions in the last year, even before MCC comes in). We have asked for more State staff, including an entry-level econ/political officer for "transformational diplomacy" purposes, a second OMS (for the soon-to-be-combined Econ/Pol Section plus backup for our sole FO OMS), and a financial officer.

¶4. (U) At the embassy town hall, we suggest you:

-- Acknowledge the Foreign Service National Association, which is currently led by Ms. Bulgan (the political assistant).

-- Thank personnel for their hard work every day, and on the high-level visits during the last year.

-- Offer some comments from a Washington perspective.

Coffee with donors

¶5. (U) Invitees include the World Bank, ADB, IMF, UNDP, and Japan and German aid agency representatives; these are the largest donors to Mongolia. While you may want to ask them for a brief listing of their most important projects, the idea of this meeting is for you to get the views of these key foreign representatives on Mongolia's economic and political situation, including the prospects for progress against corruption.

Meeting with military

¶6. (SBU) Major General Borbaatar is the Ministry of Defense's State Secretary (senior civil servant). The military-military relationship is a thriving element of our bilateral relationship. Although we take pleasure in this, we think it advisable that these defense ties (notably Mongolia's continued participation in Iraq and Afghanistan coalitions) not appear to dominate other bilateral news -- and therefore, for instance, have advised that a military-military agreement not/not be the first done under the aegis of the proposed bilateral comprehensive partnership agreement.

¶7. (U) Mongolia's ongoing military transformation is a success story for U.S. aid. Mongolia's aim over the next half decade is to create a full brigade of soldiers capable of taking part in UN peacekeeping operations. This approach should spur transformation of the remainder of the approximately 11,000 military. Mongolia already has perhaps two companies toward the brigade goal. In early May, the joint military transformation planners will meet to work out the details of how to spend the \$15 million in aid the U.S. announced last July (\$11 million from the Coalition Solidarity Fund, and \$4.5 million from the Global Peace Support Operations Initiative). We have requested FMF levels go up from the current \$1 million to \$10 million in FY 2008 and 2009.

¶8. (U) The small but increasing U.S. investments in the Mongolian military since the mid 1990s have yielded payoffs. Mongolia is on its sixth deployment of troops to Iraq since 2003 (100 soldiers, down from 150 because of a changed mission), its fifth rotation of artillery trainers are in Afghanistan (13 soldiers), 50 troops have recently returned from a three-month mission in Kosovo, and 250 soldiers are currently guarding the UN war crimes court in Sierra Leone (Mongolia's first armed UN mission). We and Mongolia are planning for the multilateral Khaan Quest peacekeeping exercise in August provided funding comes through by the end of May; otherwise this high-visibility exercise could be cancelled with concomitant embarrassment and political repercussions.

¶9. (U) Suggested points:

-- Reaffirm U.S. commitment to assist with Mongolia's military transformation and expand capacity to take part in peacekeeping operations.

-- Express U.S. appreciation for Mongolia's contributions to OIF and OEF.

-- Note its UN participation such as in Bosnia and Sierra Leone.

-- Invite the State Secretary to review Mongolia's military transformation plans and the "lessons learned" from the recent spate of peacekeeping missions.

MFA Lunch

¶10. (SBU) Foreign Minister Enkhbold is traveling in his constituency on Friday, but VFM Tsolmon will attend as will newly appointed State Secretary Bekbat. Tsolmon headed the Mongolian delegation to the CBRGI

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discussion in Washington in February. Items for discussion:

-- Guatemala UNSC bid. After repeated recent discussions, MFA is very familiar with the U.S. desire for Mongolia to declare its support now, rather than wait until August. On Tuesday, we learned that Mongolia is trying to get Guatemala to agree to a mutual support deal, which is part of discussions on formal establishment of diplomatic relations: Mongolia for Guatemala in 2006, Guatemala for Mongolia in 2008 (Mongolia will face off vs. Iran). It does not want to "give away" its support to Guatemala, given the long odds MFA sees for its own 2008 campaign.

-- Status of principles/comprehensive partnership agreement. Our proposal on the table is that the bilateral declaration of principles would be signed here in May, between the Ambassador and (likely) the Foreign Minister. The principles would provide the foundation upon which separate sectoral pillar agreements would rest, although the MFA reps continue to press for a larger framework agreement beyond the declaration of principles. A possible first "pillar" agreement could be one in the cultural area, incorporating cultural preservation and fleshed out with a pending preservation project.

-- While talk about a visit to the U.S. this summer by Foreign Minister N. Enkhbold seems to have died down, MFA appears to be under strong pressure to have Prime Minister Enkhbold visit this fall (perhaps around UNGA) and "sign something" as a visible achievement: the framework agreement, an MCC compact (we've explained that MCC compacts are usually signed in the recipient capital, and Mongolia's would not be ready until year's end, most likely). We've also noted that -- however Mongolia chooses to describe the visit itself -- a stop in Washington by PM Enkhbold will not be an "official" visit in U.S. eyes, and we make no guarantees on any meetings. To salve this message, we've noted that former President Bagabandi paid such "unofficial" visits to Washington before he finally got his official one in July 2004.

-- Due largely to the 800th anniversary celebrations, this will be another big year for high-level visitors here (including possibly Chirac and Japanese, Dutch, and British royals). South Korean President Roh will visit Mongolia in May. In turn, Tsolmon may ask you for any news on who will head a U.S. delegation.

-- We suggest you also ask how Mongolia sees its relations with Russia and China developing. The President's planned spring visit to Moscow has been postponed till autumn, we hear, and frictions between Mongolia and Russia have grown in recent months.

Meeting with Prime Minister Enkhbold

¶11. (SBU) Enkhbold has been Prime Minister since late January, after being nominally an MPRP backbencher since October 2005. Prior to that, he was mayor of the capital and head of the Ulaanbaatar MPRP since 1998 (both politically important positions, given that nearly 40% of the country's population resides here). He has been head of the MPRP since June 2005, when he narrowly won an MPRP vote, after winning Enkhbayar's endorsement to succeed him as party head (which also positioned him as a likely future PM). Corruption rumors about Enkhbold (and about his payoffs to Enkhbayar) are recurrent, many centering around the process of granting land titles in the capital. His background has not really provided any exposure to international issues, although he seemed on top of his brief in the Ambassador's initial courtesy call.

¶12. (SBU) Visible achievements of the three month-old "government of national unity" have been modest, after a budget-busting early decision to sharply hike government salaries, pensions, and child stipends. The government suffers from being an ad hoc temporary alliance of the MPRP (with 38 parliament seats itself, or exactly half) and four other much smaller parties (with perhaps 10 MPs). Politically, everyone's main task is to position themselves for the parliamentary elections in June 2008, which loom ever larger. Policy coherence and Cabinet discipline are in doubt. Although Enkhbold benefits from the MPRP's numerical dominance and greater discipline, he has far less firm control of the MPRP than did Enkhbayar (the constitutionally nonpartisan president remains an influence behind the scenes).

¶13. (SBU) Policy fluctuations have been greatest on the mining sector, although many top MPRP leaders realize the importance of a business environment which attracts Western investment -- but, as with likeminded politicians from other parties, believe it would be political suicide and ineffective to try to publicly debunk populist sentiment upset that Mongolians remain poor while foreign companies profit from high mineral prices. After Minister for Industry and Trade Jargalsaikhan (Republican Party) made remarks in February which sometimes seemed to suggest the government should take over 51% of the equity in "strategic" foreign mining concessions, Enkhbold established a working group chaired by the Deputy Prime Minister to review government policy. In the last few days, he met with protest leaders who had erected gers on Sukhbaatar Square in early April, amongst whose concerns was distribution of profits from. He agreed to establish joint working groups with them to review the legality of concessions granted foreign mining companies, and these have started to meet. Enkhbold does deserve credit for a generally restrained police response to the protests (though police did demolish one ger to the north of Government House on the evening of April 25), and for the lack of the large-scale MPRP-sponsored counterdemonstrations (a few small ones were held) which would have produced an ugly and volatile atmosphere.

¶14. (SBU) With the Prime Minister, we suggest that you:

-- Stress the U.S. determination to maintain and build upon the strong bilateral relationship in the wake of President Bush's visit.

-- Express congratulations on Mongolia's 800th anniversary, and state that we are in the process of deciding on a U.S. delegation.

-- Note that Assistant Secretary Hill hopes to visit in the next few months.

-- Be prepared to candidly discuss the Prime Minister's possible visit to the U.S. this fall, if he raises it.

-- Reiterate our support for Mongolia's continued economic and political transformation.

-- Convey our hope that the ongoing due diligence on proposed MCC projects will enable the signing of a Compact, in Ulaanbaatar, late in the year.

-- Comment that the U.S. government, as illustrated by President Bush's remarks last November, hopes for stronger anti-corruption steps, which will also be important in the MCC review.

-- Note that MCC countries must undergo a review to see whether they continue to remain eligible, and that such a review will be conducted in October. Note that MCC is particularly concerned about Mongolia's falling corruption score, a hard hurdle to MCC assistance.

-- Urge that the State Great Hural (SGH) pass effective anti-corruption, ethics, and anti-money-laundering legislation in its current session, as the first installment on Mongolia's implementations of its obligations under the UN Convention Against Corruption. Ask the Prime Minister for his assessment of the likelihood of progress against corruption in the next two years.

-- Urge that the SGH pass anti-money laundering legislation, which has been delayed for the past two years. (Note: Mongolia is due for review by the Asia Pacific Group this fall and recent banking scandals have increased international financial sector concern as the reliability of Mongolia's banking sector. There have also been attempts by DPRK banks to develop correspondent banking relationships in Mongolia in the wake of the Banco Delta Asia scandal in Macau.)

-- Urge that Mongolia substantially revise the State Secrets Act and abolish criminal libel provisions,

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steps which would boost transparency and help fight corruption.

-- Note our understanding that MFA is preparing for the Cabinet a briefing paper on the PSI ship boarding agreement which the U.S. has proposed, and state our hope we can negotiate and sign an agreement in coming months. (Note: MFA has told us it favors such a negotiation, although the Ministry of Roads, Transport and Tourism opposes, ostensibly for "sovereignty" reasons, but likely for fear it will cut into its ship registry revenues. Despite being landlocked, Mongolia has a growing registry of 700 ships -- administered minimally by a Singapore firm -- which troublingly includes some North Korean vessels.)

-- Note that Washington is watching closely the Guatemala-Venezuela UNSC battle, and that we hope for positive news soon from MFA.

-- Express gratitude for Mongolia's humanitarian policy toward North Korean asylum seekers, but urge that Mongolian stop permitting North Korean contract laborers because of concerns that they should be regarded as forced labor. (Note: There are about 200 such workers, primarily in the construction industry, with some proposals to bring more in. The ILO has privately told the government it regards them as forced laborers because they are likely not genuinely free to leave their jobs if they wished to do so.)

¶15. (U) The foreign and Mongolian businessmen at the roundtable will be able to provide a picture of the Mongolian economy. Given the importance of the mining issue to the companies and to the Mongolian economy, much discussion will center on that subject. High world prices and expanded output were the key reasons why Mongolia's economy grew 10% in 2004 and 6% last year. Mongolia's textile production, exports, and related employment have fallen with the demise of the Multi-Fiber Agreement and will likely decline further when temporary safeguards with China lapse.

¶16. (SBU) There is no U.S. mining company directly invested here; however, American equity in most of the western firms active in Mongolia fuels much of the exploration in Mongolia. In addition, American mining equipment and other durable goods (Ford, CAT and John Deere are examples) have significant market share in Mongolia. The embassy (like the World Bank and other donors) has taken the neutral line that Mongolia needs to be careful to create a business environment that encourages investment and spurs growth. Even if no bad policies are enacted, the danger for Mongolia is that the populist rhetoric will scare off foreign direct investment, and poison the ability of Western firms to raise the essential loans or equity. That may leave the field to Russian and Chinese firms with deep pockets. Cynics note that, even though domination (especially Chinese) by the neighbors of mining would be seen as inimical to Mongolia's national interests, such firms are also more likely to be willing to pay bribes or agree to whatever non-commercial terms the Mongolian propose, because these non-market Russian and Chinese players know they will recover those costs by transfer pricing schemes for shipping or power supply.

Political Observer Roundtable

¶17. (SBU) This event will provide an opportunity for observers to share insights into Mongolia's political scene, and the chances for greater transparency, accountability, and action against corruption.

-- Mr. L. Sumati is Mongolia's foremost pollster and the Transparency International representative. He recently finished a poll on citizens' attitudes and experiences with corruption, and is now at work on his twice-a-year political opinions survey.

-- Mr. P. Erdenejargal is the Executive Director of the Open Society Forum.

-- Ms. Kh. Khulan is a former Eisenhower Fellow who is the Coordinator of Mongolia's follow-up efforts on the International Conference of New and Restored Democracies (ICNRD), including efforts to develop democratic governance indicators.

-- Mr. Urnukh is the Acting Director of IRI, and Mr. William Foerderer is the representative of The Asia Foundation. IRI is implementing the USAID program of assistance to parliament and support for women's political participation, while TAF implements the embassy's anti-corruption and anti-trafficking efforts.

Peace Corps Drinks

¶18. (U) This event will give you an opportunity to mix with a group of volunteers who work in the Ulaanbaatar area, or who happen to be in town, as well as to meet several Peace Corps/Mongolia staff members. This is the 15th year of the Peace Corps program in Mongolia and, for the second year in a row, the June training class will be the largest in the program's history as a direct result of requests from the Mongolian government

to Peace Corps officials. There are currently 88 volunteers in Mongolia. The new June class will include 60 persons. Most volunteers are involved in English language instruction, but are often active in a variety of other projects on the side, including efforts to combat trafficking in persons and assist in website development. Volunteers serve across Mongolia, though the prohibition on flying on MIAT domestically has meant they no longer serve in every aimag (province).

Political Dinner

¶19. (U) This dinner will provide you an opportunity to mix with a diverse group of Mongolian politicians, from the MPRP parliamentary caucus head and the new party chief for Ulaanbaatar, to former Democratic Party PM Amarjargal and Ms. S. Oyun, the impressive leader of the Civic Will Party. Most of the guests speak English well. You should know that a staffdel will visit Mongolia May 8-12 to discuss a possible program under the House Democracy Assistance Commission (HDAC). This is an outgrowth of Speaker Hastert's visit last August. One possible area of assistance might be to provide Congressional expertise supporting expansion of the State Great Hural's research capabilities.

¶20. (U) Possible subjects for discussion include:

-- MCC. Ms. Oyun is a member of Mongolia's National Commission, and all guests will have an interest.

-- The prospects for action against corruption

-- The debate over foreign mining investment

-- The political dynamics in the State Great Hural.

¶21. (SBU) With respect to the latter topic, the SGH session that began April 5 is the first since the formation of the new government. The Shadow Cabinet, which should combine the Democratic Party and Ms. Oyun's Civic Will Party, is still on the drawing boards. The parliamentary Democratic Party is fractious. During January's political maneuverings, four of the party's then 28 MPs voted to dissolve the Elbegdorj government (three were later expelled from the party), and another 17 (including dinner guest Amarjargal) signed a letter offering to join in the new government against party wishes. A Democratic Party MP's death in late March will lead to a by-election (perhaps in June) which may be hotly contested.

¶22. (U) As the notes suggest, Friday will be a very full day; but one affording you both the opportunity to press key U.S. agenda points with the government and the opportunity to hear from a variety of actors and observers. We look forward to seeing you Thursday evening.

Goldbeck